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1401 H Street, N.W.  
Suite 1020  
Washington, D.C. 20005  
Office 202/326-3822



Anthony M. Alessi  
Director  
Federal Relations

February 19, 1997

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FEB 19 1997

Federal Communications Commission  
Office of Secretary

Mr. William F. Caton, Acting Secretary  
Federal Communications Commission  
1919 M Street, NW  
Room 222  
Washington, DC 20554

RE: Ex Parte Statement  
CC Docket No. 96-262

Dear Mr. Caton:

On February 18, 1997, Ms. Kristin Shulman, Mr. Steve Oswald, Mr. Scott VanderSanden and I met with Ms. Jane Jackson, Deputy Division Chief, and members of the Competitive Pricing Division to discuss Ameritech's position in the above referenced proceeding. The attached material was used as part of our discussion.

Sincerely,

A handwritten signature in cursive script that reads "Anthony M. Alessi".

Attachment

cc: J. Jackson  
R. Lerner  
D. Slotten  
M. Seifert  
P. Glenchur  
R. Cameron  
B. Garrett  
C. Fox  
B. Wimmer  
S. Spaeth

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OFFICE OF SECRETARY

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# **Ameritech Access Reform**

## **Guiding Principles for Access Reform**

- Consistent with the Telecommunication Act of 1996 the competitive marketplace, not regulatory fiat, should be used as the tool to adjust ILEC access rates
- Revise the existing rate structure to be more economically-efficient including, removing non-traffic sensitive costs from traffic sensitive rates and recover them by a flat rate or competitively neutral mechanism
- Pricing flexibility should be granted commensurate with market conditions
- ILECs should not be guaranteed revenues, but should have the pricing tools available to respond to competition
- Remove and eventually eliminate regulation of all market participants

### **The Market Based Approach Is Consistent With The Development of Efficient Competition**

- New entrants will compare their own costs to the ILEC's costs and rates before entering the market
- This is a normal operation of competitive markets
- Efficient access competition occurs when competitors make entry and investment decisions based upon the recognition that the marketplace will move prices towards cost
- Market Based approach provides the ILECs incentives for infrastructure investment

### **The Prescriptive Approach Will Not Replicate The Competitive Outcome**

- Prescriptive approach will likely stifle and distort the development of efficient competition
- Prescriptive approach is equivalent to a restoration of traditional cost-based regulation
- Prescribed rates will provide the correct pricing signals only by accident
- Regulatory process is inferior to markets and should only be used in the absence of competition or any reasonable prospect that a competitive market will evolve
- Estimates of forward looking costs will not replicate the competitive outcome
- Incentives for market entry could be reduced, if not eliminated, by the prescriptive approach

## **Specifics of Ameritech's Position on Access Reform**

### **I. Modify Existing Rate Structures**

- Restructure access rates to remove nontraffic sensitive loop (CCL) and port costs (Line & Trunk ports of Local Switching) from traffic sensitive rates - establish a competitively neutral recovery billing mechanism
- Restructure TIC rate - move specific costs to other services (i.e. Tandem) and bill the remainder not on a traffic sensitive rate but on a competitively neutral basis
- Phase out the TIC over a five year period but ONLY if coupled with additional pricing flexibility and the flexibility to target mandatory price cap reduction to the TIC
- Make Tandem rate structure more efficient

### **II. Market Based approach to reducing access rates**

#### **Phase 1**

##### **Triggers - Potential Competition**

Unbundled Network Elements at Rates Approved by States

Wholesale Prices for Retail Services are based on Reasonably Avoidable Costs

Transport & Termination at Cost Based Rates

Network Elements and Services are Capable of being provisioned rapidly and consistent with a significant level of demand - forecasts must be provided

##### **Regulatory Relief to be Granted**

Geographic Deaveraging

Volume & Term Discounts

Contract and RFP Pricing

Deregulation of New Services

Growth Discounts

Reduce the X-Factor from 5.3 to 4.0 for the No Sharing Option

## **Phase2**

### **Triggers - Actual Competition**

Presence of competition

### **Regulatory Relief to be Granted**

Collapsing the transport & switching price cap bands

End of the mandatory part 69 rate structure

Ability to differentiate prices between classes of customers

Reduction of the X-Factor from 4.0 to 0.0 for the No Sharing Option

### **Removal of Competitive Access Services from Price Regulation**

- Demonstration of substantial competition or when an ILEC cannot dictate price movement
- Application on a service by service, LATA by LATA basis
- Services to be removed from price regulation Directory Assistance, HiCap Transport in selected LATAs and Interstate IntraLATA (IX)